

VILLAGE OF ROSEBUSH
Isabella County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Rosebush	County Isabella
Audit Date June 30, 2006	Opinion Date October 30, 2006	Date Accountant Report Submitted to State: December 18, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature 		Zip 48707	

VILLAGE OF ROSEBUSH
Isabella County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

October 30, 2006

To the Village Council
Village of Rosebush
Isabella County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Rosebush, Isabella County, Michigan as of and for the year ended June 30, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Rosebush's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities the business-type activities and each major fund of the Village of Rosebush, Isabella County, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF ROSEBUSH
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

The Management's Discussion and Analysis report of the Village of Rosebush covers the Village's financial performance during the year ended June 30, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at June 30, 2006 totaled \$408,612.97 for governmental activities and \$481,235.27 for business-type activities.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental and business type activities. These activities include the General Fund, the Major Street Fund and the Local Street Fund and Sewer Fund.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

General Funds: Most of the Village's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental funds include the General Fund, the Major Street Fund, and the Local Street Fund.

Proprietary Funds: The Village has a Sewer Fund which is reported as a proprietary fund.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

The Village's net assets for governmental and business-type activities increased by \$254,962.78 for the fiscal year ended June 30, 2006.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

General Fund: This fund is used to record all activities of the Village not required to be in a separate fund. This would include building and grounds, legislative, administrative and elections. The major source of revenue for the general fund is from the Village tax base and the revenue sharing from the State of Michigan.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village of Rosebush had \$360,415.33 in business type capital asset additions during the fiscal year ended June 30, 2006.

The Village of Rosebush had no long-term debt activity during the fiscal year ended June 30, 2006.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The Village does not have any known factors affecting future operations.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to demonstrate the accountability for the revenues it receives. If you have any questions concerning this report please contact the village treasurer by calling (989) 433-5845.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	385 250 67	91 241 38	476 492 05
Due from State of Michigan	10 051 19	-	10 051 19
Accounts receivable	-	11 338 16	11 338 16
Internal balances	<u>165 11</u>	<u>(165 11)</u>	<u>-</u>
Total Current Assets	<u>395 466 97</u>	<u>102 414 43</u>	<u>497 881 40</u>
NON-CURRENT ASSETS:			
Capital Assets	28 074 00	924 432 78	952 506 78
Less: Accumulated Depreciation	<u>(14 928 00)</u>	<u>(543 051 50)</u>	<u>(557 979 50)</u>
Total Non-current Assets	<u>13 146 00</u>	<u>381 381 28</u>	<u>394 527 28</u>
TOTAL ASSETS	<u>408 612 97</u>	<u>483 795 71</u>	<u>892 408 68</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	<u>-</u>	<u>2 560 44</u>	<u>2 560 44</u>
Total Current Liabilities	<u>-</u>	<u>2 560 44</u>	<u>2 560 44</u>
NON-CURRENT LIABILITIES:	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>2 560 44</u>	<u>2 560 44</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	13 146 00	381 381 28	394 527 28
Unrestricted	<u>395 466 97</u>	<u>99 853 99</u>	<u>495 320 96</u>
Total Net Assets	<u>408 612 97</u>	<u>481 235 27</u>	<u>889 848 24</u>
TOTAL LIABILITIES AND NET ASSETS	<u>408 612 97</u>	<u>483 795 71</u>	<u>892 408 68</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

FUNCTIONS/PROGRAMS	Expenses	Program Revenue	
		Charges for Services	Capital Grants and Contributions
Governmental Activities:			
Legislative	1 884 96	-	-
General government	22 040 77	150 00	-
Public safety	6 329 15	-	-
Public works	65 185 36	17 897 88	-
Total Governmental Activities	95 440 24	18 047 88	-
Business Type Activities:			
Sewer	31 279 32	31 528 40	236 352 00
Total Business Type Activities	31 279 32	31 528 40	236 352 00
Total Government	126 719 56	49 576 28	236 352 00
General Revenues:			
Property taxes			
State revenue sharing			
Interest			
Miscellaneous			
Total General Revenues			
Change in net assets			
Net assets, beginning of year			
Net Assets, End of Year			

The accompanying notes are an integral part of these financial statements.

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
(1 884 96)	-	(1 884 96)
(21 890 77)	-	(21 890 77)
(6 329 15)	-	(6 329 15)
<u>(47 287 48)</u>	<u>-</u>	<u>(47 287 48)</u>
<u>(77 392 36)</u>	<u>-</u>	<u>(77 392 36)</u>
<u>-</u>	<u>236 601 08</u>	<u>236 601 08</u>
<u>-</u>	<u>236 601 08</u>	<u>236 601 08</u>
<u>(77 392 36)</u>	<u>236 601 08</u>	<u>159 208 72</u>
20 853 18	-	20 853 18
68 064 04	-	68 064 04
4 873 25	1 888 59	6 761 84
<u>75 00</u>	<u>-</u>	<u>75 00</u>
<u>93 865 47</u>	<u>1 888 59</u>	<u>95 754 06</u>
16 473 11	238 489 67	254 962 78
<u>392 139 86</u>	<u>242 745 60</u>	<u>634 885 46</u>
<u>408 612 97</u>	<u>481 235 27</u>	<u>889 848 24</u>

VILLAGE OF ROSEBUSH
Isabella County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2006

<u>Assets</u>	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Cash in bank	182 644 61	174 891 15	27 714 91	385 250 67
Due from State of Michigan	4 109 00	4 811 71	1 130 48	10 051 19
Due from other funds	<u>165 11</u>	<u>257 28</u>	<u>226 62</u>	<u>649 01</u>
Total Assets	<u>186 918 72</u>	<u>179 960 14</u>	<u>29 072 01</u>	<u>395 950 87</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	<u>483 90</u>	<u>-</u>	<u>-</u>	<u>483 90</u>
Total liabilities	<u>483 90</u>	<u>-</u>	<u>-</u>	<u>483 90</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>186 434 82</u>	<u>179 960 14</u>	<u>29 072 01</u>	<u>395 466 97</u>
Total fund equity	<u>186 434 82</u>	<u>179 960 14</u>	<u>29 072 01</u>	<u>395 466 97</u>
Total Liabilities and Fund Equity	<u>186 918 72</u>	<u>179 960 14</u>	<u>29 072 01</u>	<u>395 950 87</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	395 466 97
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	28 074 00
Accumulated depreciation	<u>(14 928 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>408 612 97</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	20 853 18	-	-	20 853 18
State revenue sharing	32 076 51	29 141 12	6 846 41	68 064 04
Interest	2 433 64	2 335 60	104 01	4 873 25
Rents	150 00	-	-	150 00
Special assessments	17 897 88	-	-	17 897 88
Miscellaneous	<u>75 00</u>	<u>-</u>	<u>-</u>	<u>75 00</u>
Total revenues	<u>73 486 21</u>	<u>31 476 72</u>	<u>6 950 42</u>	<u>111 913 35</u>
Expenditures:				
Legislative:				
Village Council	1 884 96	-	-	1 884 96
General government:				
President	660 06	-	-	660 06
Accounting	3 400 00	-	-	3 400 00
Attorney	840 00	-	-	840 00
Clerk	2 487 02	-	-	2 487 02
Treasurer	3 187 56	-	-	3 187 56
Village hall and grounds	7 461 65	-	-	7 461 65
Unallocated	3 097 48	-	-	3 097 48
Public safety:				
Fire protection	6 329 15	-	-	6 329 15
Public works:				
Highways and streets	-	28 770 21	9 179 93	37 950 14
Street lighting	4 648 42	-	-	4 648 42
Drains	5 565 04	-	-	5 565 04
Sanitation	<u>17 021 76</u>	<u>-</u>	<u>-</u>	<u>17 021 76</u>
Total expenditures	<u>56 583 10</u>	<u>28 770 21</u>	<u>9 179 93</u>	<u>94 533 24</u>
Excess (deficiency) of revenues over expenditures	16 903 11	2 706 51	(2 229 51)	17 380 11
Fund balances, July 1	<u>169 531 71</u>	<u>177 253 63</u>	<u>31 301 52</u>	<u>378 086 86</u>
Fund Balances, June 30	<u>186 434 82</u>	<u>179 960 14</u>	<u>29 072 01</u>	<u>395 466 97</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 17 380 11

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(907 00)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>16 473 11</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

STATEMENT OF NET ASSETS – BUSINESS TYPE FUNDS
June 30, 2006

	<u>Sewer Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	91 241 38
Accounts receivable	<u>11 338 16</u>
Total Current Assets	<u>102 579 54</u>
NONCURRENT ASSETS:	
Capital Assets	924 432 78
Less: Accumulated Depreciation	<u>(543 051 50)</u>
Total Noncurrent Assets	<u>381 381 28</u>
TOTAL ASSETS	<u>483 960 82</u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	2 560 44
Due to other funds	<u>165 11</u>
Total Current Liabilities	<u>2 725 55</u>
Total Liabilities	<u>2 725 55</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	381 381 28
Unrestricted	<u>99 853 99</u>
Total Net Assets	<u>481 235 27</u>
TOTAL LIABILITIES AND NET ASSETS	<u>483 960 82</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
BUSINESS TYPE FUNDS
Year ended June 30, 2006

	<u>Sewer Fund</u>
OPERATING REVENUES:	
Charges for Services:	
Service charges	<u>31 528 40</u>
Total Operating Revenues	<u>31 528 40</u>
OPERATING EXPENSES:	
Salaries and wages	5 372 04
Operating supplies	374 67
Utilities	1 789 96
Miscellaneous	<u>1 170 31</u>
Total Operating Expenses	<u>8 706 98</u>
Operating Income (Loss) before depreciation	22 821 42
Less: Depreciation	<u>(22 572 34)</u>
Operating income (loss)	<u>249 08</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	1 888 59
Federal grant proceeds	166 860 00
Insurance claim proceeds	<u>69 492 00</u>
Total Non-operating Revenues (Expenses)	<u>238 240 59</u>
Change in net assets	238 489 67
Net assets, beginning of year	<u>242 745 60</u>
Net Assets, End of Year	<u>481 235 27</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS
Year ended June 30, 2006

	<u>Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	31 779 75
Cash payments to suppliers for goods and services	(774 50)
Cash payments to employees for services	<u>(5 372 04)</u>
Net cash provided (used) by operating activities	<u>25 633 21</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition of capital assets	(360 415 33)
Proceeds from federal grant	166 860 00
Proceeds from insurance claim	<u>69 492 00</u>
Net cash provided (used) by capital and related financing activities	<u>(124 063 33)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>1 888 59</u>
Net cash provided (used) by investing activities	<u>1 888 59</u>
Net increase (decrease) in cash	(96 541 53)
Cash beginning of year	<u>187 782 91</u>
Cash End of Year	<u><u>91 241 38</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	249 08
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	22 572 34
(Increase) decrease in receivables	251 35
(Increase) decrease in payables	<u>2 560 44</u>
Net Cash Provided (Used) in Operating Activities	<u><u>25 633 21</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Rosebush, Isabella County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Rosebush. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on September 14 with the final collection date of September 30 before they are added to the county tax rolls. The Village 2005 tax roll millage rate was 3.00 mills, and the taxable value was \$7,762,271.00.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$1,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Village employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council

VILLAGE OF ROSEBUSH
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>476 492 05</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>385 760 55</u>
Total Deposits	<u>485 760 55</u>

The Village of Rosebush did not have any investments as of June 30, 2006.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental and Business type activities for the current year was as follows:

	Balance 7/1/05	Additions	Deletions	Balance 6/30/06
<u>Governmental Activities:</u>				
Buildings	23 771 00	-	-	23 771 00
Equipment	5 483 00	-	(1 180 00)	4 303 00
Total	29 524 00	-	(1 180 00)	28 074 00
Accumulated Depreciation	(15 201 00)	(907 00)	1 180 00	(14 928 00)
Net Governmental Capital Assets	14 053 00	(907 00)	-	13 146 00
<u>Business Type Activities:</u>				
Sewer Systems	564 017 45	360 415 33	-	924 432 78
Accumulated Depreciation	(520 479 16)	(22 572 34)	-	(543 051 50)
Net Business Type Capital Assets	43 538 29	337 842 99	-	381 381 28

Note 5 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 6 – Retirement Plan

The Village does not have a retirement plan.

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Village does not issue building permits.

VILLAGE OF ROSEBUSH
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9 – Segment Information for Enterprise Funds

The Village maintains one Enterprise Fund which provides sewer services. Segment information for the year ended June 30, 2006, is as follows:

	<u>Sewer Fund</u>
Operating revenues	31 528 40
Depreciation expense	22 572 34
Change in net assets	238 489 67
Net working capital	99 853 99
Net assets	481 235 27

Note 10 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	165 11	Sewer	165 11
Major Street	257 28	General	257 28
Local Street	<u>226 62</u>	General	<u>226 62</u>
Total	<u>649 01</u>	Total	<u>649 01</u>

VILLAGE OF ROSEBUSH
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	28 200 00	28 200 00	20 853 18	(7 346 82)
State revenue sharing	35 000 00	35 000 00	32 076 51	(2 923 49)
Interest	3 000 00	3 000 00	2 433 64	(566 36)
Rents	1 000 00	1 000 00	150 00	(850 00)
Special assessments	19 000 00	19 000 00	17 897 88	(1 102 12)
Miscellaneous	2 900 00	2 900 00	75 00	(2 825 00)
Total revenues	89 100 00	89 100 00	73 486 21	(15 613 79)
Expenditures:				
Legislative:				
Village Council	3 500 00	3 500 00	1 884 96	(1 615 04)
General government:				
President	1 000 00	1 000 00	660 06	(339 94)
Elections	1 500 00	1 500 00	-	(1 500 00)
Accounting	4 000 00	4 000 00	3 400 00	(600 00)
Attorney	15 000 00	15 000 00	840 00	(14 160 00)
Clerk	4 100 00	4 100 00	2 487 02	(1 612 98)
Treasurer	4 100 00	4 100 00	3 187 56	(912 44)
Village hall and grounds	9 000 00	9 000 00	7 761 98	(1 538 35)
Unallocated	8 900 00	8 900 00	3 097 48	(5 802 52)
Public safety:				
Fire protection	7 000 00	7 000 00	6 329 15	(670 85)
Public works:				
Street lighting	6 000 00	6 000 00	4 648 42	(1 351 58)
Drains	6 000 00	6 000 00	5 565 04	(434 96)
Sanitation	19 000 00	19 000 00	17 021 76	(1 978 24)
Total expenditures	89 100 00	89 100 00	56 583 10	(32 516 90)
Excess of revenues over expenditures	-	-	16 903 11	16 903 11
Fund balance, July 1	-	-	169 531 71	169 531 71
Fund Balance, June 30	-	-	186 434 82	186 434 82

VILLAGE OF ROSEBUSH
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	30 000 00	30 000 00	29 141 12	(858 88)
Interest	2 500 00	2 500 00	2 335 60	(164 40)
Miscellaneous	<u>1 500 00</u>	<u>1 500 00</u>	<u>-</u>	<u>(1 500 00)</u>
Total revenues	<u>34 000 00</u>	<u>34 000 00</u>	<u>31 476 72</u>	<u>(2 523 28)</u>
Expenditures:				
Public works:				
Highways and streets	<u>34 000 00</u>	<u>34 000 00</u>	<u>28 770 21</u>	<u>(5 229 79)</u>
Total expenditures	<u>34 000 00</u>	<u>34 000 00</u>	<u>28 770 21</u>	<u>(5 229 79)</u>
Excess of revenues over expenditures	-	-	2 706 51	2 706 51
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>177 253 63</u>	<u>177 253 63</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>179 960 14</u>	<u>179 960 14</u>

VILLAGE OF ROSEBUSH
Isabella County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
State revenue sharing	7 800 00	7 800 00	6 846 41	(953 59)
Interest	850 00	850 00	104 01	(745 99)
Miscellaneous	<u>1 500 00</u>	<u>1 500 00</u>	<u>-</u>	<u>(1 500 00)</u>
Total revenues	<u>10 150 00</u>	<u>10 150 00</u>	<u>6 950 42</u>	<u>(3 199 58)</u>
Expenditures:				
Public works:				
Highways and streets	<u>10 150 00</u>	<u>10 150 00</u>	<u>9 179 93</u>	<u>(970 07)</u>
Total expenditures	<u>10 150 00</u>	<u>10 150 00</u>	<u>9 179 93</u>	<u>(970 07)</u>
Excess (deficiency) of revenues over expenditures	-	-	(2 229 51)	(2 229 51)
Fund balance, July 1	<u>-</u>	<u>-</u>	<u>31 301 53</u>	<u>31 301 52</u>
Fund Balance, June 30	<u>-</u>	<u>-</u>	<u>29 072 01</u>	<u>29 072 01</u>

VILLAGE OF ROSEBUSH
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2006

Village Council:	
Salary	1 600 00
Miscellaneous	284 96
	<u>1 884 96</u>
President:	
Salary	600 00
Supplies	60 06
	<u>660 06</u>
Accounting	
	<u>3 400 00</u>
Attorney	
	<u>840 00</u>
Clerk:	
Salary	2 376 00
Office supplies	111 02
	<u>2 487 02</u>
Treasurer:	
Salary	2 700 00
Postage	307 56
Office supplies	156 00
Miscellaneous	24 00
	<u>3 187 56</u>
Village hall and grounds:	
Contracted services	
Utilities	880 00
Insurance	2 327 89
Miscellaneous	4 183 00
	<u>70 76</u>
	<u>7 461 65</u>
Unallocated:	
Community promotion	2 655 00
Social security	368 43
Miscellaneous	74 05
	<u>3 097 48</u>
Fire protection	
	<u>6 329 15</u>
Street lighting	
	<u>4 648 42</u>
Drains	
	<u>5 565 04</u>
Sanitation	
	<u>17 021 76</u>
Total Expenditures	<u>56 583 10</u>

CAMPBELL, KUSTERER & CO., P.C.

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 30, 2006

To the Village Council
Village of Rosebush
Isabella County, Michigan

We have audited the financial statements of the Village of Rosebush for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Rosebush in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Rosebush
Isabella County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated June 30, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants